STUDENT LOANS:
ARE THEY OVERBURDENING A GENERATION?

by

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SUMMARY

Student borrowing to pay the costs of postsecondary education has skyrocketed in the last decade. Annual loan volume has quintupled during that period and now amounts to about $10 billion. Originally conceived as a convenience for the middle class, student loans have become an important financing tool for students from all income brackets.

This transformation, however, has occurred with relatively little attention paid to the impact of borrowing for education on students who have to repay the loans. Most research on student loan programs has focused on costs (e.g., the size and distribution of subsidies, defaults, and the volatile nature of federal obligations under the current loan structure). Because of the need to reduce federal deficits and spend federal dollars as wisely as possible, these issues will and should continue to be debated.

This paper assesses what we know about the equally important question of whether heavy dependence on student loans is creating serious problems for individuals or the society in which they live. It concentrates on borrowing for prebaccalaureate education, though data limitations often make it impossible to separate graduate from undergraduate loans.

With a third to a half of all undergraduates leaving school in debt for their education, concern over debt burdens is mounting. A key finding of this paper is that, to date, most of the concern is based on impressionistic and anecdotal evidence, because data and studies on the impact of student borrowing are few, fragmentary, and frequently out-of-date and/or contradictory. Better research, even if we had it, might not tell us what we need to know when we need to know it, since analysis can be a conservative force that fails to document a problem until the problem becomes so serious that it is overwhelming. Nevertheless, there is a pressing need for better data and research on student borrowing to help separate valid from invalid concerns about high borrowing levels.

The data we do have, while not permitting us to give precise and comparable nationwide statistics on student borrowing over the past two decades, clearly show that this borrowing has grown dramatically. Not only do students borrow more than they used to, but more students take out educational loans. Real indebtedness levels, after adjusting for inflation, are higher than they were 10 or 15 years ago. Student loans, once viewed as largely for the middle class, are now used by many students from lower income families as well. Borrowing is now common at community colleges and proprietary schools as well as among students in traditional baccalaureate programs, but the heaviest dependence on loans and the highest debt levels are found among students enrolled in private colleges and universities.

Growing student indebtedness has raised questions about the implications of debt burdens for the national economy, for the individual well-being of borrowers, for equality of access to higher education, and even for the educational process itself. It has also caused increased awareness of the risks students face when they take out educational loans and has spurred interest in whether other countries protect their students from these risks differently than we do.

This paper examines what we do and don't know about these questions. It suggests that some frequently-heard concerns about student borrowing are not supported by the evidence available to date, although the paucity of good data and studies make it unwise to dismiss these concerns out of hand. In particular, it is not yet clear that high debt levels are causing serious problems for many students; that educational, career, and personal decisions are being affected by indebtedness; or that the growth in student borrowing poses a threat to the national economy.

The analysis does identify some problems with our growing reliance on loans to finance higher education. Given the uncertainties students face at the time they make the decision to borrow (their ultimate career choice, the prospects for real income increases, and the outlook for inflation), they cannot know what the real burden of the debt they are assuming will be. If low inflation and low real income increases characterize the national economy in the years ahead, students entering repayment will find the real impact of their loan burdens heavier than their counterparts of the 1960s and 1970s.

Furthermore, heavy emphasis on borrowing may discourage traditionally-underenrolled groups from participating in higher education and hinder the nation's progress toward equal educational opportunity. There is much speculation, but little hard data yet to prove, that recent declines in black enrollment reflect the shift in student aid policy from grants to loans along with real declines in student aid available from federal sources. Whether or not this is the case, it is clear that loans, unlike grants, are not neutral in their effects on different groups. Because of continuing disparities in income between white males, on the one hand, and women and minorities on the other, the latter will find loans more burdensome to repay.

Exacerbating these problems is the fact that, unlike some European programs, U.S. loans lack insurance protecting a student borrower from the danger that his investment in himself through education will not pay off with a level of income that permits comfortable repayment of the debt.

Making good policy choices about the future of loans in financing higher education requires much better information than we currently have about the extent of student borrowing and about both its positive and negative consequences. Despite current concerns over high borrowing levels, many people view student loans not as a problem but as an important means (along with other student aid programs) of broadening access to college and in spurring the nation's economic and civic growth. In consumer surveys going back as far as the late 1950s, respondents have listed "financing educational expenses" as one of the most appropriate reasons for borrowing.

Structuring effective and efficient student loan programs requires attention to many issues in addition to the burden of indebtedness, though we must not neglect the latter. We need to consider the implications of our growing reliance on loans as the central feature of federal efforts to promote educational opportunity and the appropriateness of loans for different kinds of students in different kinds of institutions. We should also look at whether the evolution of the Guaranteed Student Loan Program from a minimally-subsidized loan of convenience to a highly-subsidized loan for the financially needy is a backward step to the extent that it limits access to loans for students whose primary need is not subsidies but a means through which to invest in their own futures.

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I. INTRODUCTION

Mortgaging a Generation
A report on student loans by the California Postsecondary Education Commission

Mortgaged Futures
A book on how to pay for college by Marguerite J. Dennis

"We've said to young people, if you want an education, here's a loan, pay for it yourself."
Theodore J. Marchese
Change magazine, May/June 1986

"The rapidly increasing dependence on loans as a means of financing students is alarming and must end."
Frank Newman
Higher Education and the American Resurgence

As these titles and quotes and the commissioning of a paper by the Joint Economic Committee indicate, concern is mounting about the rapidly growing indebtedness of students pursuing postsecondary education. Attention to this issue is long overdue.

Until recently, research and analysis on student loan programs (most of which involve repayment guarantees and/or subsidies from the federal government) largely focused on their costs to the government or on the level of borrower defaults and how to reduce them. Because of the need to cut federal deficits and spend federal dollars as wisely as possible, these issues will and should continue to be debated. Equally important, however, are questions about what large amounts of student

debt mean for the economy, for individual borrowers, and for education and society.

Student loans are not new. President Lyndon Johnson, who presided over the creation of the Higher Education Act of 1965 which included student grant, loan, and work programs in its pathbreaking Title IV, was said to have been most interested personally in the Guaranteed Student Loan (GSL) program. He had borrowed to attend college in the 1930s and reportedly felt that loans should be more widely available to students in higher education (Hansen, 1977, p. 149.) In fact, Caro (1983, pp. 163-5) reports that Johnson borrowed from the bank, from his college, from friends, and even from the local newspaper publisher, and dropped out of school to teach for a while when he couldn't keep up the payments on these debts (and the loan he took out to purchase a used Model A!).

The GSL proposal was designed to facilitate student borrowing by overcoming the reluctance of private lenders to make uncollateralized loans to young persons with no credit history through the provision of repayment guarantees. It also gained support from those wishing to derail college tuition tax credits, which almost passed the Senate in 1964. It was viewed largely as a minimally-subsidized loan of convenience for the middle class; it had an eligibility ceiling of $15,000 in annual income at a time when median family income was $6,957. Needier students already had access to another federally-sponsored loan program, National Defense (now Direct) Student Loans (NDSL), which had been enacted as a last-minute substitute for politically-unpopular grants in the National Defense Education Act of 1958. Before the establishment of these federal programs, both

colleges and states had created opportunities for students to borrow to help pay the costs of college.

Why are student debt levels the subject of rising concern? Mainly the now huge size of GSL and the large number of students who use it to take out ever larger loans. In 1985-86, 3.6 million students borrowed $8.3 billion in GSLs. Over 800,000 students took out about $750 million in new NDSLs in that year, and other smaller federal loan programs accounted for about $800 million more. Loans are now not just a convenience for the middle class but an important part of the way they and lower-income families finance higher education. This transformation, however, has occurred with relatively little attention paid, either at the beginning or along the way, to what the impact of borrowing for education would be on students who would have to repay the loans.

This paper is an introduction to the complex issue of whether heavy dependence on student loans is creating serious problems for individuals or the society in which they live. While more and more people are looking at this question, it is nevertheless the case that research and analysis are as yet skimpy and fragmentary. Much of the current concern about student indebtedness is based on impressionistic and anecdotal evidence, but data about student loans in general and the GSL program in particular are woefully inadequate for addressing most policy concerns.

This paper, then, is suggestive rather than definitive. It examines the available evidence about student loan rates and levels and how these have changed over time. It identifies some of the major questions that underlie the feeling that reliance on student loans to

finance higher education has gone too far, provides some preliminary indications about the extent of the problems, and addresses what can and needs to be done. It establishes a foundation for the task of further marshalling evidence, analysis, and discussion to help determine how great the danger is that we are undesirably mortgaging the futures of college students or jeopardizing national economic growth.

Though existing statistics on loans frequently make it impossible to distinquish borrowing for graduate and professional education from pre-baccalaureate borrowing, this analysis focuses whenever possible on the latter. Graduate students represent only about one and a half million of the approximately 14 million students enrolled in postsecondary education (defined here as including the proprietary sector as well as government and independent nonprofit colleges and universities). Though their borrowing is often large--the average medical student graduates $30,000 in debt--their circumstances are different than undergraduates: they know with some certainty, for example, what careers they will enter and what salaries they can earn. Special programs, moreover, can be and have been created to deal with the pockets of extremely high borrowing found in some graduate and professional fields. Assessing the effects of graduate student borrowing requires an analysis different from the one in this paper; an important contribution on this subject is the study recently published by the Association of American Universities (Hauptman, 1986b).

Section II of the paper traces the growth of student borrowing over the last two decades. Then, sections III through VI discuss student loans and how they may affect the economy, the well-being of

young adults, the achievement of equal educational opportunity, and the educational process. Section VII looks at the risks students face in borrowing to pay for education and at how the United States compares to other countries in protecting students from these risks. A final section indicates what preliminary conclusions can be drawn from this analysis.

II. TRENDS IN STUDENT BORROWING

Despite the fact that students borrow almost $10 billion annually for postsecondary education, statistics on student loans are poor to nonexistent. Researchers and governing bodies alike have expressed, in various fashion, their frustration over the lack of basic data to answer obvious questions about who is borrowing, how much they are borrowing, and what has happened to borrowing over time.

> Currently available data do not permit accurate determination of the actual cumulative debt burdens for Guaranteed Student Loan borrowers in California (California Postsecondary Education Commission, 1985, p. 33).

> There exists no coherent central data base for the Guaranteed Student Loan Program, no central integrated data base which links the various Title IV programs, and no systematic cross-year data on student aid recipients across programs (Hearn and Wilford, 1985, p. 5-9).

> The data suffer from a number of serious limitations precluding, for the most part, any <u>definitive</u> assessment of the incidence and level of borrowing among postsecondary students (Stedman, 1984, p. 3).

> The best we can do is read tea leaves and make inferences (Marchese, 1986b, p. 6).

There are almost no data except overall program totals available at the national level for GSL, which is far and away the biggest student loan program. Most GSL data comes from state guarantee agencies and varies in amount and quality; one major shortcoming is that state agencies have no way of combining information on students who take out loans guaranteed by more than one agency. With the exception of a few direct surveys of students or institutions, there are no data on combined

borrowing from different programs: GSL, NDSL, health professions loans, college and university loan funds, etc.

Thus, it is impossible to assemble precise and comparable nationwide statistics on student borrowing over the past two decades. Nevertheless, a judicious choosing of tea leaves makes it possible to give an impressionistic description of such borrowing and how it has changed in recent years.

Most student borrowing occurs in the three main federal loan programs: GSL, NDSL, and Parent Loans to Undergraduate Students (PLUS), a GSL offshoot established in 1980 to provide less-subsidized loans to parents, graduate students, and independent undergraduates. Table 1 gives basic statistics on these three programs for selected academic years since 1970-71, in both current and constant (adjusted for inflation) dollars.

The raw numbers in Table 1 suggest why concern over student loans has been on the rise, showing as they do a startling increase in the amount of borrowing especially under the GSL program. After going along during the early 1970s at slightly over a billion dollars a year, GSL borrowing took off after passage of the Middle Income Student Assistance Act (MISAA) in November 1978 removed all income limits on eligibility. By 1980-81 GSL borrowing had reached over $6 billion and was slowed only temporarily by the reimposition of income restrictions in 1981. By 1985-86 borrowing had climbed to over $8 billion in GSL; in addition, students or their families were taking out more than a billion dollars more in NDSL and PLUS loans. (The exact amount of PLUS loans being taken by students rather than by parents is unknown; some early data indicated it might be about half.)

TABLE 1: STUDENT BORROWING BY PROGRAM FOR SELECTED YEARS

	1970-71	1975-76	1980-81	1985-86
GSL				
# of loans (in thousands)	1,017	922	2,899	3,640
$ loaned (in millions)				
Current $	$1,015	$1,267	$6,187	$8,288
Constant 1986 $	$2,872	$2,567	$8,031	$8,493
Average loan				
Current $	$998	$1,374	$2,134	$2,277
Constant 1986 $	$2,824	$2,784	$2,770	$2,333
NDSL				
# of loans (in thousands)	452	690	813	854
$ loaned (in millions)				
Current $	$240	$460	$695	$751
Constant 1986 $	$680	$932	$902	$770
Average loan				
Current $	$532	$667	$853	$880
Constant 1986 $	$1,505	$1,351	$1,107	$902
PLUS				
# of loans (in thousands)	N/A	N/A	6	212
$ loaned (in millions)				
Current $	N/A	N/A	$14	$548
Constant 1986 $	N/A	N/A	$18	$562
Average loan				
Current $	N/A	N/A	$2,333	$2,585
Constant 1986 $	N/A	N/A	$3,029	$2,649

N/A = Not applicable.

Sources: Gillespie and Carlson, Trends in Student Aid: 1963 to 1983, 1983.

College Board, Trends in Student Aid: 1980 to 1986, 1986.

Unpublished data for 1985-86 from U.S. Department of Education and Congressional Budget Office.

Table 1 suggests several important qualifiers to the impression that student indebtedness had run wild, however. The size of average annual GSL loans more than doubled over the 15 years shown, but more important to the overall size of the program was the nearly four-fold increase in the number of borrowers. This is especially significant in light of the fact that postsecondary enrollments have been relatively steady since the mid-1970s, indicating that borrowing is a much more widespread occurrence among postsecondary students in the mid-1980s than it was in the early 1970s.

Moreover, Table 1 illustrates that the *value* of the average annual GSL and NDSL has actually declined over this period when inflation is taken into account. Thus, though many more students are borrowing each year than 15 years ago, on average their loans are smaller in terms of real purchasing power.

The piecemeal available data indicate that cumulative indebtedness of students is rising along with nominal increases in annual borrowing. A 1986 survey of financial aid directors nationwide by the College Scholarship Service (CSS) and the National Association of Student Financial Aid Administrators (NASFAA) provides the best up-to-date indication of the debt levels of undergraduate students completing programs of study in 1985-86. Table 2 shows average debt levels for students who borrow after two years in public and private two-year colleges and after four years in four-year colleges and universities. The statistics of most interest are those suggesting that student borrowers at public colleges are graduating with an average debt of $6,685, while their private college counterparts have debts averaging $8,950.

TABLE 2: AVERAGE INDEBTEDNESS
FROM ALL SOURCES FOR UNDERGRADUATES WHO BORROW
1985-86

INSTITUTIONAL TYPE	AT END OF FIRST TWO YEARS	AT END OF FIRST FOUR YEARS
Public 2-year	$3,303	
(number of institutions)	(485)	
Private 2-year	$4,461	
(number of institutions)	(107)	
Public 4-year	$3,217	$6,685
(number of institutions)	(335)	(333)
Private 4-year	$4,340	$8,950
(number of institutions)	(735)	(736)

Source: College Scholarship Service and National Association of Student Financial Aid Administrators, Survey of Undergraduate Financial Aid Policies, Practices and Procedures, forthcoming.

Though the data are again spotty, clearly today's students are accumulating more total indebtedness than did their counterparts in earlier years. Davis (1985, p. 8), using data on loans guaranteed by the Pennsylvania Higher Education Assistance Authority, reports that seniors leaving school in 1974-75 had cumulative GSL loans averaging $3,698, a number which grew modestly to $4,474 in 1980-81 and then bounded upward to $7,110 in 1983-84. Elsewhere (Davis, 1986, p. 64), he reports that in 1980-81 slightly over 600 Pennsylvania undergraduates left school owing more than $7,500 in GSLs; in 1983-84 about 12,400 undergraduates left school owing this much.

The California Postsecondary Education Commission (1985, p. 33) found evidence of increasing dependence on GSLs by comparing the accumulated indebtedness of students enrolled in school in 1984 (who are likely to borrow still more before leaving) and borrowers already in repayment (see Table 3) and noting the larger proportions of currently-enrolled borrowers at the higher loan levels. Nearly 20 percent of those who were currently enrolled already had borrowed over $5,000, as compared to 10 percent of those who had left school and were repaying their loans.

The cumulative indebtedness of graduating seniors in the University of Wisconsin system rose 19 percent (from $5,884 to $6,995) between 1982-83 and 1984-85 (Student Financial Aid, n.d., p. 4).

Cumulative loan amounts, however, vary widely around the average. Table 4 shows cumulative GSL indebtedness for Pennsylvania seniors leaving school in selected academic years; it indicates both the range of debt and also how cumulative loan levels and the number of borrowers have been rising. It also shows cumulative indebtedness of seniors in

TABLE 3: GSL INDEBTEDNESS OF CURRENTLY ENROLLED BORROWERS AND REPAYERS IN CALIFORNIA AS OF JUNE 30, 1984

TOTAL BORROWED	CURRENTLY ENROLLED BORROWERS	REPAYERS
$0 - 2,500	56.4%	63.4%
$2,501 - 5,000	23.7%	26.2%
$5,001 - 7,500	8.3%	5.2%
$7,501 - 10,000	6.4%	3.6%
$10,001 - 15,000	3.6%	1.4%
Over $15,000	1.5%	0.2%

Source: California Postsecondary Education Commission, Mortgaging a Generation: Problems and Prospects of California's Guaranteed Student Loan Program, 1985, p. 33.

TABLE 4: CUMULATIVE GSL DEBT OF SENIORS IN PENNSYLVANIA AND NEW YORK, SELECTED YEARS

	PENNSYLVANIA				NEW YORK
AMOUNT	1974-75	1977-78	1980-81	1983-84	1985-86
Less than $2,500	33.3%	33.7%	31.7%	9.4%	10.5%
$2,501 - 5,000	35.2%	34.8%	35.0%	17.6%	18.3%
$5,001 - 7,500	31.5%	31.3%	30.4%	27.2%	21.6%
$7,501 - 10,000	N/A	0.2%	2.9%	43.8%	38.8%
$10,000 - 12,500	N/A	N/A	N/A	2.5%	10.8%
# of students	8065	9,185	18,672	23,023	43,080

N/A = Not applicable.

Sources: Jerry S. Davis, "Growing by Leaps and Bounds," Pennsylvania Higher Education Assistance Authority, November, 1985.

Unpublished data from the New York State Higher Education Services Corporation.

New York in 1985-86. The large percentage of students with high debt levels in New York reflects both more recent data and the fact that a high proportion of New York students attend private colleges. Table 5 shows the distribution of debt among students graduating in 1984 from 22 schools belonging to the Consortium on Financing Higher Education (COFHE), which represents 30 of the most selective and expensive private colleges in the country. These data, unlike most that are available, indicate how many students graduate without debt as well as the range of debt for those who borrow. At the 22 COFHE schools, only a quarter of 1984 graduates were debt-free, while 43 percent left school owing $7,500 or more. Table 6 shows the distribution of average debt levels reported by financial aid directors nationwide for 1986 students completing four years of school. It indicates that relatively high levels of borrowing (average cumulative debts exceeding $10,000 for undergraduates) can be found at more than a quarter of private colleges and at a tenth of public ones.

Translating from current to constant dollars modifies the impression of growing indebtedness given by current dollar figures. The CSS/NASFAA survey found current indebtedness among private college graduates who borrowed to be $8,950 in today's (1986) dollars. This would be the same after accounting for inflation as a cumulative indebtedness of $4,285 in 1975. An undergraduate today borrowing $12,500, which was the GSL statutory maximum until legislative changes in October 1986, would be indebted at the same real level as an undergraduate who completed a bachelor's degree in 1975 with $5,985 in debt. Thus while borrowing is increasing in amount and is certainly

TABLE 5: CUMULATIVE DEBTS FROM ALL SOURCES OF 1984 SENIORS AT 22 PRIVATE COLLEGES

No debt	27%
$1 - 2,499	4%
$2,500 - 4,999	10%
$5,000 - 7,499	16%
$7,500 - 9,999	20%
$10,000 - 12,499	17%
$12,500 - 14,999	3%
$15,000 and over	3%

Note: Percents are not weighted by institutional enrollments or to adjust for differences in response rates. Results are based on 6,668 respondents from 22 institutions.

Source: Consortium on Financing Higher Education (COFHE), results from an unpublished survey.

TABLE 6: AVERAGE DEBT FROM ALL SOURCES AT THE END OF FOUR YEARS, AS REPORTED BY FINANCIAL AID OFFICERS*

DEBT AFTER 4 YEARS	PUBLIC 4-YEAR INSTITUTIONS	PRIVATE 4-YEAR INSTITUTIONS
Under $1,000	0%	.4%
$1,000 - 1,999	1.5%	.5%
$2,000 - 2,999	5.1%	1.5%
$3,000 - 3,999	7.8%	2.2%
$4,000 - 4,999	20.4%	6.8%
$5,000 - 7,499	31.8%	19.3%
$7,500 - 9,999	22.8%	38.7%
$10,000 - 14,999	9.0%	27.3%
Over $15,000	1.2%	2.6%
N/A	.3%	.7%
Total # of schools	333	736
Approximate mean	$6,685	$8,950

*Percent distribution represents the distribution of survey respondents,
(one per school), not the number of students in each category.

N/A = Not applicable.

Source: College Scholarship Service and National Association of Student Financial Aid Administrators, Survey of Undergraduate Financial Aid Policies, Practices and Procedures, forthcoming.

more widespread, inflation is an important part of the growth in cumulative debt levels.

Perhaps more important than total debt levels for undergraduates is the fact that borrowing is now so much more common. In the early years of GSL most undergraduate borrowing occurred in colleges and universities, where students were the most likely to complete degree programs and to have higher earnings after graduation. Indeed, an early concern in GSL was bankers' unwillingness to lend to poor students and to those in community colleges and proprietary schools. Illustrative data from two states demonstrate that these restrictions have been overcome. Community colleges led the way in the growth in use of loans in Illinois between FY 1975 and FY 1985 (Table 7). In Pennsylvania community college and proprietary school participation in student loans has grown significantly faster than the four-year colleges (Table 8). Scattered additional evidence from around the country supports the view that there has been a large increase in borrowing among students at schools offering two years of study or less.

This change has been part of a larger transformation in GSL from a program intended mainly to ease the cash-flow problems of non-needy families to a major source of funds for low-income students attempting to pay for college. In Fiscal Year 1983, forty percent of all GSL borrowers came from families with annual incomes under $15,000 (Table 9). Median family income in 1983 was $24,580.

The foregoing data suggest that while student loans are growing, individual indebtedness may not be as alarming as overall program statistics suggest. But what about the future? Not only does the

TABLE 7: UNDERGRADUATE BORROWING FROM ALL SOURCES BY INSTITUTIONAL TYPE IN ILLINOIS, SELECTED YEARS

	FY 1975	FY 1985	PERCENT CHANGE
ALL SCHOOLS*			
Number of loans	30,289	106,902	+253%
Amount lent	$41,677,113	$245,682,273	+489%
Average loan	$1,376	$2,298	+67%
PUBLIC 4-YEAR			
Number of loans	17,299	46,937	+171%
Amount lent	$19,418,400	$99,086,187	+410%
Average loan	$1,123	$2,111	+88%
COMMUNITY COLLEGES			
Number of loans	3,659	20,666	+465%
Amount lent	$3,813,141	$41,374,398	+985%
Average loan	$1,042	$2,002	+92%
PRIVATE INSTITUTIONS*			
Number of loans	9,331	39,299	+321%
Amount lent	$18,445,572	$105,221,688	+470%
Average loan	$1,977	$2,677	+35%

*Except proprietaries.

Source: Illinois Board of Higher Education and Illinois State Scholarship Commission, Student Financial Aid by Source, Type, Sector and Level During Fiscal Year 1985, April 1986.

TABLE 8: NUMBER OF BORROWERS LEAVING SCHOOL BY SECTOR IN PENNSYLVANIA, SELECTED YEARS

INSTITUTIONAL TYPE	1974-75	1983-84	PERCENT CHANGE
In-state			
4-year private	5,083	16,717	+229%
State universities	4,890	11,426	+134%
State-related	4,297	13,769	+220%
Junior colleges	262	1,373	+424%
Community colleges	1,117	6,975	+524%
Nursing schools	569	1,665	+193%
Proprietary schools	4,443	30,829	+594%
All out-of-state	4,754	12,445	+162%

Source: Jerry S. Davis, "Growing by Leaps and Bounds," Pennsylvania Higher Education Assistance Authority, November, 1985.

TABLE 9: INCOME DISTRIBUTION OF GSL RECIPIENTS, FY 1983

INCOME	FINANCIALLY DEPENDENT STUDENTS	FINANCIALLY INDEPENDENT STUDENTS	ALL BORROWERS
Below $15,000	34.5%	48.9%	39.5%
$15,000 - 29,999	28.6%	24.4%	27.1%
$30,000 - 44,999	22.0%	8.0%	17.1%
$45,000 - 59,999	7.8%	2.0%	5.8%
$60,000 - 74,999	2.1%	0.4%	1.5%
$75,000 and up	0.3%	0.1%	0.2%
Unknown	4.7%	16.4%	8.8%
	100%	100%	100%
Percent of total	65.1%	34.9%	100%

Source: College Board, Who Receives Federal Student Aid?, 1986, p. 21.

existing data suggest that the rate of increase has picked up in the 1980s, but there are clear signs that indebtedness is likely to continue on its upward course.

The statutory maximum annual loan limit for undergraduate GSLs was set at $2,500 in 1972, but actual average borrowing has only recently approached this level. Future increases are unlikely to be constrained, however, since the reauthorization of the Higher Education Act (P.L. 99-498) signed into law on October 17, 1986 raises the undergraduate loan ceiling in GSL to $17,250 and increases borrowing limits under NDSL as well. The eligibility of middle-income students for GSL was also curtailed; but states, schools, and private lenders seem likely to develop new borrowing options for this group.

Data from the CSS/NASFAA survey of financial aid directors also indicates that borrowing is likely to keep going up. Table 10 shows that only a minority of respondents favored keeping loan limits where they are, though the range of opinion about what the maximum annual and cumulative loan limits for undergraduates from all sources should be was wide.

Having examined these diverse tea leaves, what inferences can be drawn? The following points sketch what is probably an accurate picture of student borrowing in the United States, the implications of which will be discussed below.

- Of the roughly 14 million students enrolled annually in public, private, and proprietary postsecondary institutions, the evidence suggests that about a third borrow. Since some students may borrow in one year but not another, the proportion of students leaving school with debt is higher. While we lack data to make ready comparisons with earlier years, it is clear that the proportion of students borrowing to finance higher education has grown greatly in the last decade.

TABLE 10: OPINIONS OF FINANCIAL AID OFFICERS ABOUT MAXIMUM DEBT LEVELS, BY TYPE OF INSTITUTION

ISSUE	PUBLIC 2-YEAR	PUBLIC 4-YEAR	PRIVATE 2-YEAR	PRIVATE 4-YEAR
% favoring no change in the current statutory annual maximum GSL for undergraduates ($2,500)	67.0%	44.8%	40.7%	31.1%
% favoring increase	33.0%	55.2%	59.3%	68.9%
% favoring no change in the current statutory maximum GSL for all undergraduate years ($2,500)	53.8%	41.4%	40.6%	25.0%
% favoring increase	46.2%	58.6%	59.4%	75.0%

Source: College Scholarship Service and National Association of Student Financial Aid Administrators, Survey of Undergraduate Financial Aid Policies, Practices and Procedures, forthcoming.

- Data on overall borrowing mask significant differences in the proportion of borrowers of different types. Graduate students probably borrow more frequently and at higher levels than undergraduates, full time students more frequently and at higher levels than part-timers, and students at private institutions more frequently and at higher levels than those enrolled at public, lower-cost schools.

- Among undergraduates, the range in borrowing is wide. Relatively few students leave school having borrowed the maximum for which they are eligible.

- Annual and cumulative borrowing by individuals has grown significantly, but adjusting borrowing levels for inflation modifies the magnitude of the increase. Real indebtedness levels are higher than they were 10 or 15 years ago, but not nearly so much as unadjusted statistics would suggest.

- While student loans used to be viewed as largely for the middle class, they are now used by many students from lower-income families as well.

- Student borrowing is now common at community colleges and proprietary schools as well as among students in traditional baccalaureate programs, but the heaviest dependence on loans and the highest debt levels are found among students enrolled in private colleges and universities.

III. STUDENT LOANS AND THE ECONOMY

In 1985 the California Postsecondary Education Commission (p. 39) concluded from a review of the "problems and prospects" of the GSL program in that state that

> students with large loan indebtedness will typically have to postpone major purchases for at least a time after entering the work force. . . . The impact of this increasingly common set of circumstances has major implications for the overall health of the economy.

Concern over these issues has arisen among observers of rising student debt levels at the national level as well. The next section of this paper looks at whether the economic well-being of individuals is likely to be affected by the amounts borrowed for college. Here, we look at whether student borrowing poses a threat to the economy at large.

The question is a complex one and has been the subject of virtually no formal analysis. Therefore, the comments made here (even more so than the rest of this study) must be viewed as tentative and suggestive. At a minimum, we may be able to conclude whether the evidence currently available suggests that a major problem already exists or whether much more detailed analyses would be necessary to draw this conclusion.

The danger to the economy posed by the increasing reliance on student loans is presumably the same danger that economists ascribe to high levels of debt in general. Luckett and August (1985, p. 392) claim that the chief economic problem arising from high debt levels is the constraint imposed on spending when income must be directed to debt

service rather than current consumption, though they also recognize the fear that creditors will curtail the availability of credit if high debt levels threaten losses on loans. In either event, spending increases could be constrained and economic growth thereby threatened.

National economic activity is spurred by government and business as well as consumer purchases, so economic growth depends on spending patterns in all three sectors. Therefore, one useful way to put student loans in context is to see what proportion they represent of all borrowing. Table 11 shows that the GSL and PLUS programs (which reflect much but not all student borrowing, with NDSL the most significant omission) are currently a tiny fraction of the nation's debt. Economic demand seems much more likely to be affected by changes in other areas, such as government spending in this Gramm-Rudman era of budget cuts designed to trim the size of the annual federal deficit, than by what happens in the education loan arena.

Focusing on just household, as opposed to business and government, indebtedness, gives student loans a more visible, though still comparatively small, role. Table 12 shows how GSL and PLUS have changed since 1978 in comparison to consumer installment and mortgage debt. In the Federal Reserve Board's economic reports, student loans that have entered repayment are counted as part of the former. Table 12 indicates that GSL/PLUS loans in repayment have grown almost 4 1/2 times faster than installment debt as a whole since 1978, though still a small fraction of such debt. This statistic may overstate the significance of student loans as a constraint on household budgets, however, since these loans typically involve ten-year repayment periods and therefore are counted in the stock of debt longer than other

TABLE 11: OUTSTANDING INDEBTEDNESS OF GOVERNMENT, CORPORATIONS, AND INDIVIDUALS, 1985
(IN BILLIONS OF DOLLARS)

Federal government	$1,600.4
State and local government	$553.1
Corporations	$1,505.1
Individuals	$3,224.6
(GSL and PLUS loans, including those to students still in school and those that have entered repayment--fiscal year data)	($36.8)

Sources: Federal Reserve Board and U. S. Department of Education.

TABLE 12: INSTALLMENT, STUDENT LOAN, AND MORTGAGE DEBT OUTSTANDING (IN BILLIONS OF DOLLARS)

	TOTAL GSL/PLUS LOANS OUTSTANDING	(1) CONSUMER INSTALLMENT CREDIT OUTSTANDING	(2) GSL/PLUS LOANS IN REPAYMENT	(3) (2) AS A PERCENT OF (1)	(4) MORTGAGE DEBT OUTSTANDING (1-4 FAMILY HOMES)
1978	$ 7.5	$262.0	$ 2.9	1.1%	$ 753.5
1979	$ 9.1	$296.5	$ 3.2	1.1%	$ 870.5
1980	$12.3	$297.7	$ 3.8	1.3%	$ 963.9
1981	$18.5	$314.3	$ 4.7	1.5%	$1,038.5
1982	$22.7	$327.2	$ 6.9	2.1%	$1,074.7
1983	$27.0	$376.2	$ 9.5	2.5%	$1,192.8
1984	$31.9	$453.6	$13.0	2.9%	$1,329.6
1985	$36.8	$535.1	$16.1	3.0%	$1,469.1
% Inc. 1978-1985	390%	104%	450%		95%

Total GSL loans outstanding include loans of students still in school as well as loans that have entered repayment. Only loans that have entered repayment are counted by the Federal Reserve as part of consumer installment credit outstanding.

GSL and PLUS data are for the end of the fiscal year. Consumer credit and mortgage debt data are for the end of the calendar year.

Sources: Council of Economic Advisers, Economic Indicators, May 1986.

Council of Economic Advisers, Economic Report of the President, February 1986.

Federal Reserve Bulletin, June 1986.

Department of Education, GSLP Data Book FY 1985, August 1986.

consumer loans that are usually paid off in one to five years. The extended repayment period means that monthly repayments on student loans are also lower than repayments on similar amounts of other consumer debt.

Whether or not today's historically high consumer debt levels are a problem for the overall economy is the subject of debate. Some analysts (e.g., Pearce, 1985) conclude after examining the various factors contributing to recent rapid increases that households do not appear in a weakened financial position and that household debt does not seem to be an impediment to future consumer spending, barring a general economic downturn. Others argue that both lenders and borrowers are threatened by recent borrowing patterns that mark a sharp step upward from the trends that have prevailed during most of the past 40 years. The outcome of this debate is unlikely to hinge on the comparatively small portion of household indebtedness that represents student borrowing, though any future consensus that debt levels overall have grown too large would certainly have implications for student loans.

Finally, it is important to note that any detailed assessment of the effects of student loans on the economy would have to take account of the possible spurs to economic growth that these loans represent. This is yet another area where adequate research is lacking, in part because the analytical issues are tremendously complicated and difficult to disentangle. The question of how student aid in general, to say nothing of loans in particular, has affected the economy, among other things, is the subject of much debate and little consensus (see Hearn and Wilford, 1985, and McPherson, forthcoming). But there is

clearly a widespread belief that some positive benefits have accrued, despite the problems in measuring and attributing them.

At the most obvious level, loans probably contribute to economic growth by freeing resources that would otherwise have to be spent on education. Delving more deeply, analysts who believe that student assistance programs (grants, loans, and work) have had some positive effects on enrollment rates and educational attainments (e.g., Hearn and Wilford, 1985, p. vii) go on to argue that these effects "unquestionably translate into increases in the national income, the national tax base, employment, and overall productivity." Hearn and Wilford also cite "a rigorous set of analyses" performed by Susan R. Griffith

> examining the question of what the absence of the federal Title IV student aid programs since 1965 might have meant to the nation's economy. Her conclusions were blunt: without the massive federal student aid investment, the nation's unemployment levels and tax base would have suffered appreciably over the past twenty years.

Though Hearn and Wilford acknowledge difficulties with Griffith's study, they are right in looking to these kinds of questions in order to get a balanced view of the impact of student aid.

What conclusions, then, can we draw about student loans and the economy?

- There is virtually no systematic analysis that addresses directly the question of how student loans do or will affect the economy.
- Whether today's historically high levels of government, corporate, and household indebtedness pose a threat to national economic growth is the subject of debate. The outcome of this debate is

unlikely to hinge on the comparatively small portion of household indebtedness that represents student borrowing, though any future consensus that debt levels overall have grown too large would certainly have implications for student loans.

IV. STUDENT LOANS AND INDIVIDUAL WELLBEING

The fact that it has not yet been demonstrated that student loans are negatively affecting the national economy does not mean that individual borrowers might not find their economic wellbeing threatened by the burden of debt repayment. This section examines the burden imposed on young adults by educational debt.

There has been more research which speaks to this issue than on many questions in the student loan area. As noted at the beginning of this paper, loan defaults have been the object of much attention, mostly because of concern over the costs (both political and monetary) they impose on government programs. But since the act of defaulting might be considered at least a rough indication that the loan burden had proven unmanageable for the borrower involved, information on who defaults on student loans is also relevant to the issue of loan burden. Addressing the question more directly have been a number of studies attempting to define manageable levels of borrowing for students. Yet another research tack with implications here is analysis of how student loans might affect a borrower's subsequent ability to obtain credit for such things as a house and a car. Finally, there has been some effort to look at whether educational debt affects other life decisions such as career choice, marriage, and having children.

A number of studies have discovered that high cumulative debt levels do not appear to be the culprit in GSL loan default. (For a summary of these studies, see California Postsecondary Education Commission, 1985.) Rather, high default rates occur among borrowers of smaller amounts, those who take out only one or two loans, those who stay in school for only a year or two, and those who do not obtain their degrees or certificates. Community college and proprietary school students represent a disproportionately high share of defaulters. The total amount of indebtedness incurred appears to be much less a factor in default than does the relationship of this indebtedness to later income, the prospects for which are poorer for dropouts than for graduates and for students who attain lower levels of schooling.

Researchers have periodically attempted to define manageable levels of indebtedness for college students, usually expressed in terms of the proportion of pre-tax or post-tax income that can reasonably be made available for student loan repayment. Stedman (1984) reviewed major studies by Daniere (1969), Hartman (1971), Froomkin (1974), and Horch (1978, 1984) and determined that there was "no consensus on where the threshold separating manageable from unmanageable levels of debt should be set" (p. 14). Manageability thresholds derived by these analysts ranged from 3 to 15 percent of pre-tax income, for example. Nor is the diversity of findings the only problem with this approach. Stedman notes a number of other factors that limit its usefulness.

-- Applying manageability thresholds to decisions about how much students can borrow requires information about future incomes and about the exact repayment terms of loans, information which

can be difficult to get for a homogeneous group of borrowers (medical students, for example) and almost impossible for a diverse one (all baccalaureate receipients).

-- In Stedman's view, many of the calculations used in defining manageable indebtedness are arbitrary.

-- Debt manageability thresholds focus mostly on short-term debt burdens, whereas there are also long-range implications that should be considered.

-- Relating debt service costs to income is a crude measure of a borrower's capacity to make repayments, a capacity which also depends on such factors as family size, the number of workers per household, and earnings prospects.

-- Focusing on the manageability of educational debt alone may shift attention away from how much total indebtedness borrowers can manage and how student debt may cause young adults to be turned down later for additional credit to finance houses, cars, and other goods.

Johnson and Sullivan (1983) have addressed this last point. They analysed eligibility requirements imposed by lenders both for mortgage and consumer credit and assessed the extent to which these requirements were likely to limit individuals with educational debts from obtaining additional credit. Within both sectors the requirements are diverse, but they are less variable and more restrictive in the mortgage lending area. Johnson and Sullivan concluded that student indebtedness as it existed in 1981 (the last year for which they had data) was unlikely to affect the future consumption behavior of young adults. They found that credit markets did not impose particularly effective controls on consumer indebtedness, despite the existence of restrictions on the part of some lenders. In fact, borrowers appeared to be able to obtain "huge" amounts of consumer credit; their own self-imposed limits were responsible for keeping debt levels generally below maximum levels established by the marketplace. Johnson and Sullivan did express concern, based on their projections of future student borrowing and

income patterns, that students graduating in the mid-to-late 1980s might find it more difficult to obtain credit for the purchase of residential property. Their projections of future student loan levels appear to be higher than we have actually seen, however, and the analysis would also presumably be affected by the recent and sizeable decline in mortgage interest rates relative to those obtaining when the study was written.

Nevertheless, there are two important points that relate to this issue of how student borrowers will subsequently fare in the credit market. The first is that, contrary perhaps to common expectations, credit markets will *not* keep young adults from getting into financial trouble by restricting the total amount they can borrow for various purposes. In fact, this absence of market discipline appears more evident now than it did three years ago. Sullivan (1986, p. 27) argues that recent developments in the credit market--deregulation, innovations in credit delivery systems and contracts, and increased competition--"have removed some of the forces that have historically operated to limit the amount of credit available, especially to high-risk consumers." This suggests that educational and financial institutions providing student loans to often young, financially-inexperienced individuals have a responsibility to educate them about shopping for and managing credit so that they do not get themselves in over their heads when they leave school and face a host of new credit decisions and few restrictions.

The second point has to do with the future access of student borrowers to attractive forms of credit for their later purchases. Mortgage and consumer credit used to be treated equally under the tax

laws, but the tax reform legislation of 1986 gradually removes the deductability of interest payments, except for interest on home mortgages. For the minority of taxpayers who itemize deductions, this will not only make student loans more expensive because interest will have to be paid with after-tax dollars, but will make second mortgages and other debt instruments based on home equity more attractive ways of borrowing money for whatever purpose than installment loans. If young adults who have borrowed as students find themselves less able than their debt-free peers to buy homes, they may find themselves comparatively disadvantaged in access to the most attractive loans for consumer purchases as well. Since young people have lower incomes and are probably less apt to itemize than the general population, however, this problem may turn out to be more hypothetical than real.

A final aspect of the economic well-being issue has to do with whether individuals who borrow for education will be able to repay only at the cost of choosing high-paying careers or delaying marriage or childbearing. Three researchers who look at this question directly concluded that such was not the case. Davis (1986, p. 64) reported that

> Our 1982 follow-up study of 1981 alumni of Pennsylvania institutions found that: (1) only a few borrowers were experiencing loan repayment burdens; (2) there was no relationship between marital statuses and borrowing rates or levels; (3) alumni who had gone to graduate school or were planning on advanced degrees had *higher*, not *lower*, debt levels than others who had completed baccalaureate degrees; (4) there were no significant differences in first year earnings of borrowers and non-borrowers employed in similar occupations, suggesting that borrowers probably did not obtain higher-paying jobs to repay their loans; and (5) GSLP debt levels did vary by occupations, with engineers having higher debt

> levels and marketing and sales personnel having lower debt levels--but engineers earned more and marketing/sales personnel earned less, so their relative situations were similar.

Martin (1986, p. 58) reported similar findings from a national sample of borrowers in repayment.

> In general terms, student loans do not appear to have as much adverse impact on borrowers in repayment as many of us, perhaps somewhat viscerally, would have thought. With the exception of the degrees to which loan payments affect their ability to save, the average responses expressed by these borrowers in repayment fall well short of the midpoint in the response range for such value judgments as: the degree to which loan debt affects the decision to marry, to start a family, to take a higher paying job rather than one in a preferred field, to postpone health care, to rent instead of purchase a home, or to drive a used car rather than a new one.

Little (1986, p. 72) reported no significant differences among borrowers and nonborrowers in the classes of 1979 and 1984 at the University of California at Santa Cruz in their patterns of marrying, having children, attending graduate school, buying a house, or owning a car.

All of these studies have problems. Those reported by Davis and Martin are old; they report on students who completed school before the large borrowing years of the 1980s. Martin's results are based on a survey that suffered from a very low response rate and that omitted defaulters from its sample, though borrowers who fail to make their payments might be considered the ones where student loans would have had the greatest impact on later economic decisions. Both Davis and Little (at least for the Class of 1984) surveyed students within a year or so of graduation; perhaps negative economic effects take longer to appear.

Evidence that has been cited in arguing that student loans *do* affect later decisions unfortunately suffers from shortcomings of its own. Neither the Carnegie Foundation (1986) nor American Council on Education (1985) surveys, for example, that imply that comparatively high borrowing levels influence career choice adequately distinguishes between cause and effect: do students borrow more when they expect to enter high-paying fields or do they enter high-paying fields because they have large debts to repay?

These are important questions, especially as debt levels of undergraduates rise. Much more and methodologically more sound research is needed to draw meaningful conclusions, however.

Even though it is virtually impossible as yet to disentangle the knotty question of how much debt students can afford to take on without adverse consequences, however, it is possible to demonstrate that, at the point of borrowing under loan programs as presently constituted, students *cannot* know what the real burden of the debt they are assuming will be.

How burdensome loans will be during the repayment period is a function of not only how much is borrowed, but also how much the borrower earns and what is happening in the economy at large during repayment, especially to the general level of prices. Inflation, scourge though it may be in many ways, is the friend of debtors with fixed interest obligations, who can repay what they owe in devalued dollars. Students, especially undergraduates, deciding on whether or how much to borrow, however, are not in any position to know how all these factors will interact to determine the real burden of their indebtedness. As they start school, they cannot be sure of completing

their program of study; many will drop out along the way. Most of them will not know with any certitude what careers they will end up pursuing. With borrowing becoming more commonplace, more borrowers will end up having at best just average, rather than above average, income prospects, at least as compared to others with similar educational backgrounds. And future economic conditions, including levels of real wage increases and inflation, are not only beyond their knowing, but beyond the knowing of our most sophisticated economic forecasters as well.

Using a simulation model called the Student Loan Counselor, developed by Dwight Horch of the Educational Testing Service, it is possible to illustrate how variations in the unpredictable circumstances facing student borrowers can affect the burden of student loan repayment. In considering the examples, it is useful to keep in mind as rough benchmarks the following: (1) the debt manageability studies showing that "acceptable" debt repayments ranged from 3 to 15 percent of pre-tax income; and (2) Johnson and Sullivan's findings that, while consumer credit is easy to find, many banks report the use of guidelines that limit the ratio of mortgage debt service/pre-tax income to 25-28 percent of income and total mortgage and consumer debt/pre-tax income to 40 percent, with the latter figure sometimes ranging up to 60 percent.

The results of the simulations appear in Tables 13, 14 and 15. Seven illustrative borrowers are described there, each of whom borrowed $10,000 in GSLs with an 8 percent interest rate in the course of obtaining a bachelor's degree, putting them among the most heavily indebted of today's undergraduates. Each student graduated in 1985 and

TABLE 13: COMPARISON OF LOAN BURDEN
UNDER VARIOUS ECONOMIC ASSUMPTIONS

	BORROWER			
ASSUMPTIONS	AARON	BETTY	COLIN	DANA
Total GSL borrowed	$10,000	$10,000	$10,000	$10,000
Starting salary	$18,800	$18,800	$18,800	$18,800
Expected annual real income growth	7%	2%	2%	5%
Expected annual increase in CPI	4%	8%	3%	3%
YEAR OF REPAYMENT	GSL REPAYMENTS AS % OF PRE-TAX INCOME			
1	7.7	7.7	7.7	7.7
2	7.0	7.2	7.4	7.2
3	6.2	6.8	7.0	6.6
4	5.6	6.3	6.7	6.1
5	5.1	5.9	6.4	5.7
6	4.5	5.5	6.1	5.2
7	4.1	5.1	5.8	4.8
8	3.7	4.8	5.5	4.5
9	3.3	4.5	5.2	4.1
10	3.0	4.2	5.0	3.8

Source: Educational Testing Service, The Student Loan Counselor model.

TABLE 14: COMPARISON OF LOAN BURDEN UNDER VARIOUS ECONOMIC ASSUMPTIONS

	BORROWER		
ASSUMPTIONS	ERIN	FRANK	GRACE
Total GSL borrowed	$10,000	$10,000	$10,000
Starting salary	$13,500	$18,800	$26,100
Expected annual real income growth	3%	3%	3%
Expected annual increase in CPI	4%	4%	4%
YEAR OF REPAYMENT	GSL REPAYMENTS AS % OF PRE-TAX INCOME		
1	10.8	7.7	5.6
2	10.1	7.2	5.2
3	9.4	6.7	4.9
4	8.8	6.3	4.5
5	8.2	5.9	4.2
6	7.7	5.5	4.0
7	7.1	5.1	3.7
8	6.7	4.8	3.4
9	6.2	4.5	3.2
10	5.8	4.2	3.0

Source: Educational Testing Service, The Student Loan Counselor model.

TABLE 15: COMPARISON OF LOAN BURDEN
UNDER VARIOUS ECONOMIC ASSUMPTIONS

	BORROWER		
ASSUMPTIONS	ERIN2	FRANK2	GRACE2
Total GSL borrowed	$7,000	$8,500	$10,000
Starting salary	$13,500	$18,800	$26,100
Expected annual real income growth	2%	3%	4%
Expected annual increase in CPI	4%	4%	4%
YEAR OF REPAYMENT	GSL REPAYMENTS AS % OF PRE-TAX INCOME		
1	7.5	6.6	5.6
2	7.1	6.1	5.2
3	6.7	5.7	4.7
4	6.3	5.4	4.4
5	6.0	5.0	4.1
6	5.6	4.7	3.8
7	5.3	4.4	3.5
8	5.0	4.1	3.2
9	4.7	3.8	3.0
10	4.4	3.5	2.8

Source: Educational Testing Service, The Student Loan Counselor model.

got a job within a few months. Starting salaries are based on data in Horch's model for 1985, with $18,800 the average for liberal arts and business administration graduates. The loans must be paid back in equal monthly installments over a ten-year period, beginning 6 months after graduation.

Table 13 indicates the influence of income and inflation growth rates on loan burden. Levy and Michel (1985, p. 8) have shown how real earnings prospects for men aging from 25 to 35 changed over two recent decades, growing roughly 7 percent annually in the period 1963-1973 but only about one and a half percent in the period 1973-1983. The first two students in Table 13, Aaron and Betty, generally illustrate these two real income growth rates. Inflation, however, was low in the first period and high in the second, circumstances that are also reflected in the simulations for Aaron and Betty respectively. The net result is that their loan burden is about the same, demonstrating the fact that, as far as loan repayment is concerned, inflation and real income increases are equally beneficial.

The third case in Table 13, Colin's, shows how debt burdens are higher if both inflation and real income increases are low, as is currently true in the United States. Dana's case is reflective of what might happen if the nation is able to improve earnings somewhat while keeping inflation under control. While none of these repayments would restrict the borrowers' ability to qualify for a mortgage, they affect in different degrees the capacity of a prudent individual to take on additional consumer debt. In no case is additional consumer borrowing ruled out altogether, however.

Table 14 holds student borrowing and economic conditions constant while varying starting salaries. Erin has the typical starting salary of a new teacher in some jurisdictions, Frank the salary of the average liberal arts graduate, and Grace the salary of a new engineer. The teacher clearly has the heaviest burden and, if she should want to buy a house in the years soon after graduation, might feel it unwise to borrow for other purposes. In these first few years, she will have to use twice the percentage of her salary to repay her student loans as will the engineer.

Table 15 shows the same three students as Table 14, but now assuming that they do not all borrow equal amounts but vary their borrowing to reflect their expected choice of career. In addition, the three careers are assumed to have different earnings prospects from year to year. This table shows that students can equalize their debt burden more than in Table 14 by borrowing less if they expect to enter less lucrative careers; this means, however, that they do not have in fact equal access to loans to help pay for higher education.

How, then, can we summarize these diverse findings on student loans and individual wellbeing?

- Growing student indebtedness has raised fears that repayment obligations are threatening the economic wellbeing of those who borrow to pay for college. While a number of studies speak to aspects of this issue, they are often old or flawed and come to contradictory conclusions.

- High levels of debt do not appear to be the culprit in loan default. Rather, high default rates occur disproportionately among students who borrow only once or twice, whose cumulative indebtedness is relatively low, who stay in school for only a year or two, and who fail to obtain their degrees or certificates, characteristics that also correlate with lower incomes than those earned by individuals who receive bachelor's degrees.

- Attempts to define "manageable debt limits" for students have resulted in diverse findings and have numerous shortcomings that hamper their usefulness.

- Highly-indebted borrowers with below-average earnings might find their later ability to obtain home mortgages hindered because of restrictions often used by mortgage lenders, but the credit market does not appear to place meaningful limits on borrowers' ability to obtain consumer credit in large amounts.

- This absence of meaningful limits in the credit market suggests that educational and financial institutions that provide student loans have a responsibility to educate their often young and financially-inexperienced clients about managing credit so that they do not get themselves in over their heads financially when they leave school.

- There is little evidence that past borrowers are choosing high-paying careers or delaying marriage and childbearing as a result of borrowing to pay for education, though this issue needs much more research that reflects the experience of student borrowers of the mid-1980s, who have borrowed more than earlier graduates.

- Under loan programs as presently structured, students cannot know what the real burden of the debt they are assuming will be. The proportion of later income that individuals will have to devote to student loan repayment rather than to other consumption or saving depends on a variety of factors (ultimate career choice, the prospects for real income increases, and the outlook for inflation) that cannot be reliably predicted by an undergraduate at the time of borrowing.

- Poor productivity growth and lagging incomes in the economy at large will increase the burden of student borrowing. Inflation, on the other hand, while signaling an economy in trouble, lessens the burden of debts with fixed interest rates, which can be paid back in devalued dollars. Relative to student borrowers in the 1960s and 1970s, today's student loan repayers would be most disadvantaged by a combination of low inflation and low real income increases, a situation characteristic of a stagnant economy.

V. STUDENT LOANS AND EDUCATIONAL OPPORTUNITY

The federal government launched its major student aid programs (embodied in Title IV of the Higher Education Act of 1965) at the height of the War on Poverty. The primary rationale for federal action (and for much of state and institutional aid as well) was and continues to be the need to equalize educational opportunity for traditionally underrepresented groups in higher education: lower-income individuals, minorities, and women.

Concern is mounting that this educational opportunity goal is being threatened by an increasing imbalance in the student aid system between loans and grants; that is, between aid that has to be repaid and that which doesn't. Hard evidence to support or refute this concern is unfortunately difficult to find. Nevertheless, it is clear that whether or not traditionally-disadvantaged students are discouraged from participating in higher education because of the swing toward loans as the major form of available assistance, they will find the burden of loan repayment heavier than their white male counterparts because of continuing disparities in income. Thus loans are not as fair, in the sense of being neutral among different types of students, as are outright grants. Moreover, GSL as currently structured has become increasingly costly to the federal government, which makes this largest of student aid programs a vulnerable target in times of high federal deficits.

To develop these points further first requires some information about available student aid and about how the sources and forms of this aid have shifted over time. As Table 16 shows, in academic year 1985-86, $20 billion in various kinds of assistance was available to students at all levels in postsecondary education. The federal government was by far the dominant provider, supplying three-quarters of the total. Thus changes in federal policy, and particularly shifts in emphasis between grants and loans, colored the entire student aid picture.

In 1985-86 almost all federal aid came through the Title IV (or "generally available" aid) programs, but this was not always the case. In the early 1970s, two "specially-directed aid" programs, Social Security student benefits and veterans' educational benefits, accounted for more student assistance than all the Title IV programs. While not intentionally focused on lower-income or disadvantaged students, Social Security and Vietnam-era veterans' benefits probably disproportionately benefitted these groups. Both provide outright grant aid.

Two major changes have occurred in federal student aid and thus aid as a whole, both with implications for educational opportunity. First, in the early 1980s inflation-adjusted student aid dropped. Table 17, a constant-dollar version of Table 16, shows a 14 percent drop in aid from federally-supported programs between 1980-81 and 1985-86, due entirely to the disappearance of Social Security student benefits and a large decline in aid for veterans. Generally-available federal aid, after suffering a decline in inflation-adjusted dollars in the early 1980s, bounced back somewhat by 1985-86. Thanks more to large real increases in state and institutional grant aid,

TABLE 16: AID AWARDED TO POSTSECONDARY STUDENTS IN CURRENT DOLLARS (IN MILLIONS)

Federally Supported Programs	ACADEMIC YEAR 1970-71	1975-76	1980-81	ESTIMATED 1985-86
Generally Available Aid				
Pell Grants	0	936	2,387	3,652
SEOG	134	201	366	396
SSIG	0	20	76	76
CWS	227	295	658	693
NDSL	240	460	695	751
GSL and PLUS	1,015	1,267	6,201	8,836
(GSL)	(1,015)	(1,267)	(6,187)	(8,288)
(PLUS)	(N/A)	(N/A)	(14)	(548)
Subtotal	1,616	3,179	10,384	14,404
Specially Directed Aid				
Social Security	499	1,093	1,883	0
Veterans	1,121	4,180	1,714	667
Other Grants	16	63	119	48
Other Loans	42	45	61	248
Subtotal	1,678	5,381	3,777	963
Total Federal Aid	3,295	8,560	14,161	15,367
State Grant Programs	236	490	801	1,374
Institutionally-Awarded Aid	965	1,435	2,138	3,426
Total Federal, State, and Institutional Aid	4,496	10,485	17,101	20,167

N/A = Not applicable.

Sources: Gillespie and Carlson, Trends in Student Aid: 1963 to 1983, 1983.

College Board, Trends in Student Aid: 1980 to 1986, 1986.

Unpublished data for 1985-86 from various federal agencies.

TABLE 17: AID AWARDED TO POSTSECONDARY STUDENTS IN CONSTANT 1986 DOLLARS (IN MILLIONS)

Federally Supported Programs	ACADEMIC YEAR 1970-71	1975-76	1980-81	ESTIMATED 1985-86
Generally Available Aid				
Pell Grants	0	1,897	3,098	3,742
SEOG	378	407	475	406
SSIG	0	40	99	78
CWS	643	598	855	710
NDSL	680	932	902	770
GSL and PLUS	2,872	2,567	8,049	9,054
(GSL)	(2,872)	(2,567)	(8,031)	(8,493)
(PLUS)	(N/A)	(N/A)	(18)	(562)
Subtotal	4,574	6,441	13,478	14,760
Specially Directed Aid				
Social Security	1,412	2,214	2,444	0
Veterans	3,173	8,468	2,225	683
Other Grants	45	128	154	49
Other Loans	119	91	79	254
Subtotal	4,748	10,901	4,902	987
Total Federal Aid	9,322	17,342	18,381	15,747
State Grant Programs	668	993	1,040	1,408
Institutionally-Awarded Aid	2,730	2,907	2,775	3,510
Total Federal, State, and Institutional Aid	12,720	21,241	22,195	20,665

N/A = Not applicable.

Sources: Gillespie and Carlson, Trends in Student Aid: 1963 to 1983, 1983.

College Board, Trends in Student Aid: 1980 to 1986, 1986.

Unpublished data for 1985-86 from various federal agencies.

however, the drop in overall aid available was held to seven percent. At the same time that overall aid was declining, however, college costs were rising faster than inflation and real family incomes (Table 18).

The second change is in the balance between types of assistance. Table 19 shows how the proportions of total aid being made available as grants, loans, and work-study have changed. From a high of 80 percent of all aid in 1975-76, grants declined to 48 percent ten years later. Loans now represent almost half of all available aid, up from 17 percent ten years earlier.

This shifting balance raises concern over effects on educational opportunity. It is often argued that students from low-income families, minorities, and women are more reluctant to borrow than are white males, though the evidence here is ambiguous. It is clear, however, that these groups earn less than their white male counterparts once they enter the full-time work force, so that the burden of loan repayment will be heavier. Thus, loans, unlike grants, are not neutral among different types of students.

Campus-based financial aid officers often report that students from disadvantaged backgrounds, particularly minorities, are reluctant to borrow (see, for example, Halloran, 1986, p. 36). Newman (1985, p. 77) reiterates this theme, arguing that

> Disadvantaged students find large loans onerous. Minority students, in particular, are less likely to use loans and therefore less likely to enter or stay in college.

TABLE 18: COLLEGE COSTS AND FAMILY INCOMES
IN CURRENT AND CONSTANT DOLLARS, SELECTED YEARS

	ACADEMIC YEAR			
	1970-71	1975-76	1980-81	1985-86
Current Dollars				
Cost of Attendance*				
Private University	3,163	4,467	6,566	11,100
Private Four-Year College	2,598	3,385	5,249	8,480
Public University	1,478	1,935	2,711	4,160
Public Four-Year College	1,209	1,657	2,420	3,750
Public Two-Year College	1,017	1,386	2,020	3,000
Income**				
Disposable Personal Income Per Capita	3,489	5,291	8,422	11,817
Median Family Income	9,867	13,719	21,023	27,735
Constant 1986 Dollars				
Cost of Attendance*				
Private University	8,949	9,050	8,523	11,374
Private Four-Year College	7,351	6,858	6,813	8,689
Public University	4,182	3,920	3,519	4,263
Public Four-Year College	3,421	3,357	3,141	3,843
Public Two-Year College	2,877	2,808	2,622	3,074
Income**				
Disposable Personal Income Per Capita	10,101	11,051	11,490	12,349
Median Family Income	28,566	28,655	28,681	28,983

*Cost of attendance includes tuition, fees, room, and board.

**Income data are for the calendar year in which the academic year begins.

Sources: Gillespie and Carlson, Trends in Student Aid: 1963 to 1983, 1983.

College Board, Trends in Student Aid: 1980 to 1986, 1986.

Unpublished data.

Table 19: Grants, Loans, and Work as a Percentage of Total Aid

	ACADEMIC YEAR			
	1970-71	1975-76	1980-81	ESTIMATED 1985-86
Grants	66.1	80.3	55.5	47.8
Loans	28.9	16.9	40.7	48.8
Work	5.0	2.8	3.9	3.4
Total Aid	100.0	100.0	100.0	100.0

Sources: Gillespie and Carlson, Trends in Student Aid: 1963 to 1983, 1983.

College Board, Trends in Student Aid: 1980 to 1986, 1986, with 1985-86 data adjusted to reflected unpublished data.

A Consortium on Financing Higher Education (COFHE) survey of families in four cities found that women, low-income students, and students with high degree aspirations showed the most concern about undertaking educational debt (Litten, 1986). Some data suggest that women borrow less often and in lower amounts than men (Moran, 1984).

Female enrollments have reached all-time highs (women now are the majority of postsecondary students), but black enrollment has been declining (see Arbeiter, 1986), fueling speculation that rising dependence on student aid in the form of loans discourages blacks from participating in higher education. At the same time, there is some evidence that those minority and women students who do enroll are in fact willing to borrow. An unpublished COFHE survey of students graduating from member schools (COFHE represents 30 prestigious private colleges--admittedly not a representative group) in 1984 found that gender had no relationship to loan indebtedness and that blacks were more likely to report that loans were a major source of funds and a source of funds than were other students (Litten, 1986). Women reported more often than men that they expected their parents to help with loan repayments; minorities' expectations of such assistance were noticeably lower.

A study of students enrolled in all sectors of California postsecondary education in 1982-83 had similar results (California Postsecondary Education Commission, 1985, pp. 21-22). Virtually identical percentages of men and women applied for guaranteed student loans, and blacks applied almost twice as often as whites, undoubtedly reflecting their lower family incomes and greater financial need.

If further analysis should show that minorities and/or women react differently to the possibility of borrowing to pay for college than white men, this would be an understandable response to a continuing fact of economic life in America: that significant wage disparities still exist between these groups and white men. Even when such differences as educational attainment, full-time versus part-time work, years of experience, and occupational choice are controlled for, earnings disparities show up. This is not the place for an exhaustive enumeration of comparative statistics, but the few basic numbers in Table 20 give a rough sense of the differences that also show up in more detailed and sophisticated comparisons.

Table 21 shows the difference such disparities can make to workers repaying student loans. The three examples represent (1) a white male (Harry) whose starting salary is the average for liberal arts baccalaureate holders; (2) an individual (Irene) whose starting salary is 70 percent of the liberal arts average; and (3) another individual (Jesse) whose starting salary is 85 percent of the liberal arts average. The figures of 70 and 85 percent were chosen for illustration because they reflect the disparities frequently found in the statistics when comparing earnings of women and minorities who work full time to male counterparts of similar educational and occupational experience. The cases of Irene and Jesse illustrate how much more of their incomes workers with less-than-average income prospects will have to devote to loan repayment rather than to other spending over the ten years after they leave school.

TABLE 20: MEDIAN INCOMES OF FULL-TIME, YEAR-ROUND WORKERS BY EDUCATIONAL ATTAINMENT, 1984

	1 - 3 YEARS OF COLLEGE	4 YEARS OF COLLEGE
Males, all races, age 25-34	$22,260	$25,754
Females, all races, age 25-34	$16,152	$19,068
White males, age 25 and over	$26,302	$32,022
Black males, age 25 and over	$21,105	$25,110
White females, age 25 and over	$17,114	$20,291
Black females, age 25 and over	$15,795	$20,626

Source: U.S. Department of Commerce, Bureau of the Census, Money Income of Households, Families, and Persons in the United States: 1984. Series P-60, No. 151, April 1986.

TABLE 21: COMPARISON OF LOAN BURDEN
UNDER VARIOUS ECONOMIC ASSUMPTIONS

	BORROWER		
ASSUMPTIONS	HARRY	IRENE	JESSE
Total GSL borrowed	$10,000	$10,000	$10,000
Starting salary	$18,800	$13,160	$15,980
Expected annual real income growth	3%	3%	3%
Expected annual increase in CPI	4%	4%	4%
YEAR OF REPAYMENT	GSL REPAYMENTS AS % OF PRE-TAX INCOME		
1	7.7	11.1	9.1
2	7.2	10.3	8.5
3	6.7	9.6	7.9
4	6.3	9.0	7.4
5	5.9	8.4	6.9
6	5.5	7.8	6.5
7	5.1	7.3	6.0
8	4.8	6.8	5.6
9	4.5	6.4	5.3
10	4.2	6.0	4.9

Source: Educational Testing Service, The Student Loan Counselor model.

Loans, then, unlike grants, are not neutral in their effects on different groups of students. Also unlike grants, the GSL program depends on interest rate subsidies to encourage banks and other private lenders to participate and operates as an "entitlement" for eligible students. As a result of liberalized eligibility rules in the 1970s and rising interest rates in the general economy, GSL became an increasingly expensive but unpredictable commitment for the federal government. Changes in 1981 and 1986 imposed new eligibility restrictions and reduced somewhat the government subsidies involved in GSL, but the program's basic structure still results in costs that are highly sensitive to outside economic forces.

Hauptman (1986a) and McPherson (1985) describe how this structure evolved and argue that GSL's high and volatile costs make the program vulnerable in an era when federal expenditures must be reduced to bring budget deficits under control. Another spurt of inflation such as occurred in the early 1980s would drive federal obligations up dramatically: by roughly half a billion dollars annually for each one percent increase in the Treasury bill rate to which GSL subsidies are tied. One has to wonder just how long the federal government will or should tolerate this kind of financial uncertainty without seeking cost-cutting changes in the program. Such changes could have serious implications for educational access, given the critical role GSL now plays in educational finance for those whose resources are otherwise inadequate to pay for college.

The Higher Educational Act reauthorization in 1986 restricted eligibility for GSLs to students who can demonstrate financial need, a reasdnable step in light of the subsidies now involved. But it is a

step fraught with irony as well, given the view twenty years ago that the federal government should provide a balanced array of grants, loans, and work opportunities for the disadvantaged and minimally-subsidized loans of convenience for the middle class. The evolution of GSL into the dominant student aid program, combined with increasing levels of subsidy, have gradually and in a largely unexamined way transformed the federal strategy for using financial assistance to foster equality of opportunity in higher education. This effort is now highly dependent on loans, with uncertain implications for those disadvantaged students who were the original focus of federal concern.

How can we summarize the relationship between student loans and educational opportunity?

- Heavy emphasis on borrowing may discourage traditionally-underenrolled groups from participating in higher education and hinder the nation's progress toward equal opportunity, though here, as in so many other areas of student aid, the evidence is mixed.

- Women, minority, and low-income students have traditionally been seen as reluctant to borrow. Though female enrollments have increased steadily, black enrollment is dropping. There is much speculation, but little hard data yet to prove, that the shift in student aid policy from heavy reliance on grants to a roughly 50/50 balance between grants and loans, coupled with real declines in student aid available from federal sources, has contributed to this decline.

- Individuals from traditionally-disadvantaged groups who actually enroll in college (as opposed to those who may be discouraged from doing so) may be as willing to borrow as other students, and in fact may be more dependent on loans because they have fewer other resources.

- Because of continuing disparities in income between white males, on the one hand, and women and minorities on the other, even after adjusting for differences in education and work experience, the latter will find loans more burdensome to repay. In this sense, loans, unlike grants, are not neutral in their effects on different groups.

- As GSL has evolved over 20 years, it has changed from a minimally-subsidized loan of convenience for middle-income families to a highly-subsidized loan for students who can demonstrate financial need. It has also become the dominant student aid program. Thus the federal strategy for fostering equality of opportunity in higher education, which initially focused on a balanced array of grants, loans, and work opportunities for the disadvantaged, has been transformed, with uncertain and largely unexamined implications for the groups who were the original focus of federal concern.

VI. STUDENT LOANS AND EDUCATION

Before any final conclusions can be reached about the effects of the nation's growing reliance on student loans, yet another issue needs to be addressed: whether loans have implications for the educational process itself. Two kinds of effects seem to be of concern here, tangible ones like whether borrowing affects the choice of major or graduate school plans, and intangible ones relating to educational "values."

The tangible effects are easily understood. Marchese (1986b, p. 14) gives a good summary of the concerns about values:

> What educational values are prompted by loans? Instrumental values, I believe, values inimical to liberal education, and personalist values, likewise inimical.
>
> Instrumental values are fostered by loans because loans force a responsible student to think ahead to the necessity for repayment; the incentive of loans is to position yourself through your coursework, major, and degree for a higher-paying job that more readily permits repayment of the loan. In effect, college becomes less and less something done for its own sake and more and more something done for what comes afterwards. Now that is not entirely an unhealthy impulse; but the greater the instrumental purpose the less likely will the student be to "dally" with the contemplations of liberal and civic learning or "sacrifice" to develop general intellectual capacity.
>
> I say "personalist" because the message to students of loans (as opposed to scholarships, grants, work, and parental contribution, each of which I think carries a more positive set of values with it) is that, "you go forward on your own nickel." The response too often evoked becomes, "I am going to get what is coming to me." This is what Frank Newman meant in his report last September when he charged that "excessive loans inadvertently undercut traditional values."

Like many other loan issues, this one is complicated. Even more so than on some, the jury is still out. The best this paper can do is to give a sense of the debate and of the evidence on both sides.

First of all, it is worth pointing out that the debate over whether different ways of paying for college affect the educational experience itself is not new. Concern seems to focus on whatever financing mechanism is currently in the spotlight. In 1952 Axt (pp. 215-6) noted that the boast, " 'I worked my way through college' has been a part of the traditional success story of the self-made man," a tradition boosted by the tough Depression years. Axt also reported, however, that many educators had reservations about the effects of work--especially if it required more than fifteen hours per week--on a student's academic and personal life. During the 1950s when Congress was considering proposals to enact the first federal scholarships, critics worried that outright gift aid would negatively affect students' commitment to their studies, in contrast to requirements that they help themselves. Today, with lending at an all-time high, we worry about loans.

Conducting research on the effects of different kinds of financial aid is not easy. As Newman (1985, p. 187) observes, such research is hindered by "the widespread use of aid packages, which introduces the problem of multi-collinearity into statistical analysis." One summary of the "limited" research on financial aid and educational outcomes (Jensen, 1983, p. 300) tentatively concludes that "grants and scholarships have small positive effects on retention and loans generally have negative impacts." A study of new students at a large commuter university by Voorhees (1985, p. 26), however, found "no

support . . . for the claim that loans are detrimental to the persistence of high need freshmen." In additional to such contradictory results, few studies have as yet been done that would, capture the effects of the high borrowing of recent years.

One that does is the COFHE survey of the class of 1984 at member schools. While students at these schools (30 of the most expensive and selective undergraduate institutions in the country) are not representative of postsecondary students as a whole in their academic accomplishments, career and income prospects, and so on, they also borrow more frequently and more heavily than most students, as Table 5 in section II showed. Nevertheless, the survey found no evidence of any relationship between undergraduate indebtedness and postgraduation plans, such as attending graduate school or going directly to work. Both this study and a 1984 Carnegie survey (Carnegie Foundation, 1986, p. 5) show that student borrowing varies by field of study, but neither report shows a formal link between indebtedness and choice of major.

If it is hard to disentangle the tangible effects of different kinds of student aid, it is almost impossible to do so in the area of effects on values. To give but one example: are today's students more preoccupied with economic issues than students of an earlier era because they have to borrow more heavily, or because they are aware that the national economy has been relatively stagnant for over a decade, with some parts of the country suffering from depression-like conditions? Given all the public concern over the state of the economy in recent years, what would be surprising would be to find no tendency for students to be more concerned about their financial futures.

Furthermore, it isn't true that students who receive loans are being told to "go forward on your own nickel." If anything, the message is "you put in two and a half cents and the government will match it;" the subsidy on GSLs has been 40 to 50 cents for each dollar lent (Hauptman, 1986a). While students may not be completely aware of the "gift" aspect of loan subsidies, they cannot help but know that some kind of government subvention has been allowing them to borrow at 7 or 8 or 9% during years when general interest rates have been much higher.

Finally, some students apparently prefer loans to work as a form of aid. Hearn and Wilford (1985, p. 3-8) quote Robert Fenske's finding that "aid officers report that certain students for whom grants are not available tend to prefer loans to work-study awards because they believe low-paying jobs interfere with obtaining good grades and completing their programs in timely fashion."

In sum, then,

- Concern is mounting that rising debt levels may affect students' choice of major and graduate school plans and the values they bring to and take from their college educations.
- Much more evidence is needed to draw firm conclusions in this area, including efforts to disentangle the effects of loans from other changes in society at large.

VII. THE RISKS OF BORROWING: AN INTERNATIONAL COMPARISON

Section IV concluded by noting the uncertainties about future loan burdens that students face when they borrow because of the unpredictability of both income after graduation and the state of the economy. For the borrower, loans are an investment that carries with it some risk. Williams (1984, p. 96) has articulated this point more fully.

> Higher education as an investment has several characteristics that distinguish it from most other forms of investment: the investment takes a long time to complete, the return are long-term, and, for any individual, they are very uncertain. So individual investors cannot afford to make mistakes; but at the same time they are not well informed about the implications of different decisions, and most of them are not in a position to make this investment decision more then once. Most successful loan schemes skirt these difficulties by having some form of income-contingent repayment arrangement: the amount a graduate repays in any year depends on his current income. Thus students need not be deterred from borrowing to finance their studies by the fear that their personal investment will be one of the unsuccessful ones. Put another way, an element of insurance is built into the loan schemes.

While Williams overstates the prevalence of such insurance--the United States and Canada both have successful student loan programs with no formal protections except for death and disability--Johnstone (1986) provides examples of two countries that do protect students against some of the risks of borrowing: Sweden and West Germany.

In Sweden, as in most of Europe, postsecondary students are not charged tuition or fees but do have to pay living expenses while enrolled in school. Parents are not formally expected to contribute to

their children's education, though many do; students are eligible based on their own resources for "Study Means" from the government. Study Means consists mostly of a highly-subsidized loan and a small direct grant. In 1983-84, a little over half of Swedish undergraduates took advantage of the loan portion of Study Means.

Swedish students do not begin repaying their loans until two and a half years after graduation, in contrast to six months in the United States. In addition to the fact that they are better established in careers when they begin repayment, Swedes also have until their 51st birthdays to repay, in contrast to our ten years. The exact period of repayment thus varies with the age of the borrower when he or she enters repayment. At this point, interest at the rate of 4.2 percent, which has been accruing during the in-school and postgraduation "grace period" is added to the loan principal to determine the total to be repaid. This total is divided by the number of years remaining until age 51 to determine the first year's repayment. Each year thereafter, the repayment amount is increased by 4.2 percent, thus giving Swedish borrowers a graduated repayment plan rather than the level repayments characteristic of U.S. student loans.

In addition to a longer repayment period and graduated payments, a Swedish borrower gets an explicit guarantee against the risk of being overburdened by low income. Debt payments are deferred if the borrower falls below a specified level of financial resources, which include among other things 40 percent of a spouse's earnings above a certain point. This 40 percent increases as the spouse's earnings increase. The level of financial resources that triggers the right to defer payment is variable, being higher if the borrower has children under

the age of ten. If as a result of deferrals, the borrower still owes money on a student loan at age 65, the debt is forgiven.

West Germany also has a highly-subsidized loan program called the BAföG to help students pay living expenses. This all-loan program was converted from a largely-grant program in 1984. Probably to make the switch palatable, repayments do not begin until five years after graduation and there is no interest charged at any point. About 30 percent of German students qualify on the basis of their or their parents' income for this assistance.

Under BAföG a borrower has 20 years to repay and makes equal monthly payments. If his or her income (not considering the income of a spouse) falls below a specified level, payments are deferred. Any remaining debt is cancelled after 20 years.

It is worth noting that BAföG in its current form is new and that no students have yet entered repayment. Therefore the German example is not helpful in terms of experience with how its various loan provisions will work out in practice.

Sweden and West Germany do illustrate how various loan features to reduce the risks of unmanageable debt can be designed. These two countries have chosen to subsidize their loan programs more heavily than the United States, but features like graduated repayment, long repayment periods, longer grace periods, and protection against low incomes in theory could be built into less-subsidized programs as well.

In fact, the first two did exist in this country for a short period in the early 1980s under a provision allowing students to consolidate high or multiple loans through the Student Loan Marketing Association. That loan consolidation authority lapsed in 1983 but was

restored in modified form (and with a variety of financial institutions and state agencies authorized to participate) when the Higher Education Act was reauthorized in October 1986. That act also authorized a small income-contingent loan demonstration project within the NDSL program to assess the feasibility of a program in which students repay on a variable schedule geared to their adjusted gross incomes.

The issue of whether students could and should be better protected against the risks of borrowing deserves attention. Loan consolidation may take care of many of our concerns about high indebtedness levels, but will not protect students who borrow at lower levels from the risk that low incomes may force them to commit comparatively high proportions of their resources to loan repayment. It would be easier to assure groups that are often considered reluctant to borrow, such as minorities and women, that their fears were unfounded if loan programs in fact had protections built into them, which they now do not.

To address head-on the question of cost that would immediately arise should income protection be added to GSL, perhaps we should consider whether the current GSL structure of below-market interest rates, subsidies, and fees is optimal. Instead of subsidizing all borrowers based on their or their parents' income at the time the loan is made, maybe we should allow all students to borrow at market rates and then use subsidies to offer protection against repayments that are out of proportion to income. As this proposal demonstrates, there are innovative ideas that could be explored, short of starting whole new programs such as the National Student Loan Bank income-contingent loan plan and its variants that have surfaced at various times over the past

two decades, to insure that student loans will not become the huge burdens so often talked about today.

Furthermore, we need to know more about what kinds of protections student borrowers really want. Cheskis-Gold's 1984 survey of alumni of Yale University's Tuition Postponement Option program of the 1970s, one of the few true income-contingent long-term loan programs ever implemented in this country, offers some suggestive findings. While students liked low repayments in the early years of work and the income contingency and graduated repayment features of TPO, they disliked very long repayment periods (in TPO, up to 35 years). Cheskis-Gold's work indicates that the optimal loan program might have moderate payments over a somewhat longer period than currently allowed under GSL and NDSL, rather than small payments over a lifetime, and would offer some protection when incomes are low relative to debt payments.

To summarize, then, how does the United States stack up in protecting students against the risks of investing in themselves through loans?

- Unlike some European countries, the United States does not build into its loan programs insurance protecting a student borrower from the danger that his investment in himself through education will not result in a level of income sufficient to permit comfortable repayment of the loan.

- Loan consolidation, a feature of U.S. loans which was initiated in the early 1980s but allowed to lapse, was resurrected in the 1986 Higher Education Act reauthorization. It will allow borrowers with large or multiple student loans to pay them over an extended period of time and may offer graduated repayment, but is not a protection for all borrowers against the risk that loan repayment will require an unduly high proportion of income.

- The issue of whether students could and should be better protected against the risks of borrowing deserves attention: innovative ideas exist and need to be investigated, and

better information is required about what kinds of protection borrowers and potential borrowers would like to have.

VIII. CONCLUSIONS

In December 1985 the College Scholarship Service of the College Board assembled approximately 50 loan experts (representing educators, students, bankers, and state loan-guarantee agencies) to discuss the problem of student debt burdens and its implications for loan counseling and debt management. Somewhat to the organizers' surprise, however, there was no consensus among those in attendance about what the "problem" was, or even if there was a problem. Perhaps this should have been expected, given the paucity of data about student loans and the diversity of American higher education, which makes it hard to give any answer except "it depends" to questions of how much students should borrow.

This paper both reflects those difficulties and gives an illustration of the gaps in knowledge and the conflicting findings that make consensus hard to reach.

Better research, even if we had it, might not tell us what we need to know when we need to know it. Sometimes analysis is a conservative force, since it may be hard to document a problem until the problem becomes so serious that it is overwhelming.

Therefore, while we simply must find ways of obtaining better information than we currently have about our large and growing reliance on students loans to finance higher education, we must also pay attention to the perceptions and impressions of those who are making loans and counseling students and repayers and to the feelings of those

who have borrowed. We must take these things seriously, but we must find ways ways to determine their validity.

Making good policy choices about the future of student loans in financing higher education depends on separating valid from invalid concerns about high borrowing levels. Despite the concerns, many people view student loans not as a problem but as a positive force (along with other student aid programs) in broadening access to college and in spurring the nation's economic and civic growth.

In consumer surveys going back as far as the late 1950s, respondents have listed "financing educational expenses" as either the second or (in the 1983 survey by a narrow margin) third most appropriate reason for borrowing (Pearce, 1985, p. 10). Educational borrowing along with borrowing to cover the costs of illness and to purchase a car are the only reasons for borrowing that are approved by a majority of consumers, about 80 percent of whom support these kinds of loans.

Structuring effective and efficient student loan programs requires attention to many issues in addition to the burden of indebtedness, though we must not neglect the latter. We also need to consider the implications of our growing reliance on loans as the central feature of federal efforts to promote educational opportunity and the appropriateness of loans for different kinds of students in different kinds of institutions. We should also look at whether the evolution of GSL from a minimally-subsidized loan of convenience to a highly-subsidized loan for the financially needy is a backward step to the extent that it limits access to loans for students whose primary need is not subsidies but a means through which to invest in their own futures.

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